



MEETING DATE: 3/06/06
ITEM NO. 7

COUNCIL AGENDA REPORT

DATE: MARCH 2, 2006
TO: MAYOR AND TOWN COUNCIL
FROM: LINDA LUBECK, TOWN TREASURER *ll*
SUBJECT: INVESTMENT ADVISORY SERVICES

- A. ADOPT RESOLUTION AUTHORIZING THE TOWN TREASURER AND TOWN MANAGER TO EXECUTE AN AGREEMENT WITH MBIA MUNICIPAL INVESTORS SERVICE CORPORATION FOR INVESTMENT ADVISORY SERVICES WITH ESTIMATED ANNUAL FEES OF APPROXIMATELY \$38,000 TO \$40,000 ANNUALLY DEPENDING UPON TOWN PORTFOLIO SIZE
- B. AUTHORIZE FY 2005/06 BUDGET ADJUSTMENT OF \$13,500 IN THE TREASURER'S OFFICE BUDGET TO PROVIDE APPROXIMATELY FOUR MONTHS OF CURRENT FISCAL YEAR FUNDING FOR PROFESSIONAL ADVISORY SERVICES PROVIDED TO THE TOWN TREASURER UNDER THE PROPOSED AGREEMENT

RECOMMENDATION:

1. Adopt resolution authorizing the Town Treasurer and Town Manager to execute an agreement with MBIA Municipal Investors Service Corporation for investment advisory services with estimated annual fees of approximately \$38,000 to \$40,000 annually depending upon Town portfolio size.
2. Authorize FY 2005/06 budget adjustment of \$13,500 in the Town Treasurer's Office budget to provide approximately four months of current fiscal year funding for professional advisory services provided to the Town Treasurer under the proposed agreement.

PREPARED BY: **LINDA L. LUBECK**
Town Treasurer

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Reviewed by: ___ Town Manager *PS* Assistant Town Manager *AK* Town Attorney
___ Clerk *SC* Finance ___ Community Development Revised: 3/2/06 2:48 pm

Reformatted: 5/30/02

DISCUSSION:

For the past two years the Town Treasurer has used an investment advisory services firm (SEI Investments) to help manage a portion of the Town's investment portfolio. The contract with the previous firm allowed discretionary authority to SEI, meaning SEI had control over the asset purchases and sales of the portion of the portfolio they managed (within the parameters of the Town's Investment Policy). SEI was originally utilized by the Town because the Town Treasurer believed an outside firm would be able to outperform the Treasurer in making decisions about investments. For a variety of business reasons, the SEI contract was terminated and all funds held in custody by SEI were transferred to the Town's custodial safekeeping account with Union Bank of California.

Because professional investment advice is very important to effectively manage and invest the Town's portfolio, the Treasurer seeks to continue these advisory services, but change the nature of the relationship from one that is discretionary to one that focuses on providing only investment advisory or "non-discretionary" services. The use of professional advisory services on a contract basis is more appropriate and cost effective than hiring additional permanent or part-time Town staff due to the complex nature of the trading market and the changing market environments that confront the portfolio's decision makers on a daily basis.

Two years ago the Town Treasurer interviewed four firms for investment management services, MBIA was the Treasurer's second choice. A primary reason for their second ranking was the fact that MBIA did not customarily provide "full discretionary" investment advisory services. Based upon the past two years of experience, the Treasurer's office concluded that "full discretionary" services were not the right solution for the Town. However, investment advisory services only are very valuable to the Treasurer's office. While managing the Town's portfolio the past two years, the Treasurer established a professional relationship with MBIA. The Treasurer became better informed about the professional investment services delivered by MBIA to California municipalities and their reputation in the investment community. The Treasurer now recommends that MBIA is the best choice to provide the requested "non-discretionary" services. Since the services are advisory only, the investment portfolio custody arrangement with Union Bank trust department would remain the same.

The agreement will call for MBIA to provide "non-discretionary" investment advisory services for the Town Treasurer's office. This means that MBIA will provide the Treasurer with advice on portfolio strategy and security selection through changing market environments, and is authorized to execute trades only upon authorization by the Treasurer. This arrangement allows the Treasurer to maintain her fiduciary control while MBIA provides independent advice and a greater range of access to the financial markets. The MBIA portfolio managers assigned to Los Gatos are Chartered Financial Analysts focused full time on the markets, the economy, and the Town's portfolio. The use of MBIA advisory services is intended to achieve more buying power than Los Gatos could obtain on its own due to its size.

Services provided under the agreement also include:

- Monthly investment reports and credit monitoring
- Periodic investment policy review
- Annual broker/dealer due diligence reviews
- Safekeeping evaluation
- Face to face meetings with Town staff and Treasurer

Currently, the Town has approximately \$38.5 million in Treasurer's funds in custody at Union Bank which are the funds for which investment advisory services would be sought by the Treasurer. The Treasurer also manages approximately \$14.5 million invested with the Local Agency Investment Fund (LAIF), plus cash balances at Bank of the West.

For comparison purposes, the Town expects to achieve financial performance that will consistently beat the LAIF yield on an intermediate term basis and provide earnings that will pay for the service annually and return higher yields for the Town than could be achieved by the Treasurer's office alone. For the past five years, MBIA CAM has exceeded LAIF returns an average of 54 to 108 basis points as shown below:

	YTD					
	2001	2002	2003	2004	2005	Aver.
California Local Agency Investment Fund (LAIF)	4.87%	2.66%	1.74%	1.65%	2.62%	2.72%
MBIA Customized Asset Management Accounts (CAM)						
Short-Term	5.51%	3.66%	2.24%	2.00%	2.53%	3.26%
Intermediate Term	5.57%	4.39%	3.05%	2.69%	2.74%	3.79%
CAM Short Term minus LAIF	0.64%	1.00%	0.50%	0.35%	-0.09%	0.54%
CAM Intermediate Term minus LAIF	0.70%	1.73%	1.31%	1.04%	0.12%	1.08%

Assuming this higher yield range of 54 to 108 basis points could be achieved in future years, the \$38.5 million of the Town's investment portfolio under advisory service could potentially achieve earnings of between \$207,900 to \$415,800 annually above the LAIF yield. This additional yield would be the potential source for paying for the increased annual approximate fee of \$38,000 to \$40,000 paid annually to MBIA for their services.

MBIA is an industry leader of investment advisory services to the public sector. Through their MBIA Asset Management Group they provide non-discretionary investment advice and asset management to many other local public sector clients including:

Cities of Campbell, Benecia, San Rafael, Menlo Park, Tracy, Newport Beach, Rancho Cordova, Monrovia, Lancaster, Lathrop, among others, and special districts such as the East Bay Regional Park District. MBIA also provides investment consulting advice to the City of Los Angeles and the City of Santa Rosa. At this point in time MBIA has over \$50 billion in public assets under management.

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The final terms of the contract are subject to negotiation. Staff is currently reviewing agreements between MBIA and other cities to obtain the most favorable terms.

CONCLUSION:

The Town Treasurer and Town Manager should be authorized to execute an agreement with MBIA for Investment Advisory Services.

ENVIRONMENTAL ASSESSMENT:

Is not a project defined under CEQA, and no further action is required.

FISCAL IMPACT:

The annual fees proposed by MBIA for investment advisory services are .11% (11 basis points) for asset balances up to and including \$20 million and .08% (8 basis points) for amounts over \$20 million. Assuming a balance of approximately \$38 million under contract for advisory services, the annual fees are estimated to be \$30,000 to \$40,000 annually. A fiscal year 2005/06 budget adjustment for four months or approximately \$13,500 is recommended at this time. As discussed in the report, based historical MBIA CAM performance, the Treasurer's office anticipates there will be sufficient increases in portfolio earnings annually by the Town to provide the funding source for this agreement.

Attachment: Resolution authorizing the Town Treasurer and Town Manager to execute an agreement with MBIA Municipal Investors Service Corporation for investment advisory services with estimated annual fees of approximately \$38,000 to \$40,000 annually depending upon Town portfolio size

RESOLUTION NO.

RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS
AUTHORIZING THE TOWN TREASURER AND TOWN MANAGER
TO EXECUTE AN AGREEMENT WITH MBIA MUNICIPAL INVESTORS
SERVICE CORPORATION FOR INVESTMENT ADVISORY SERVICES
WITH ESTIMATED ANNUAL FEES OF APPROXIMATELY \$38,000 TO
\$40,000 ANNUALLY DEPENDING UPON TOWN PORTFOLIO SIZE

WHEREAS, the Town Treasurer is interested in hiring an outside investment management firm to help manage a portion of the Town's portfolio; and

WHEREAS, the Town Treasurer previously solicited information and proposals from four firms interested in providing investment management services to the Town; and

WHEREAS, the Town previously used SEI Investments Management Corporation to manage investments with SEI having full discretion over asset purchases and sales; and

WHEREAS, the Town Treasurer still would like to use an outside investment management firm to advise and help manage a portion of the Town's portfolio, but with the Treasurer retaining full discretion over the purchase and sale of assets; and

WHEREAS, the Town Treasurer feels that of the previous firms interviewed, MBIA Municipal Investors Service Corporation is best qualified to advise and help manage a portion of the Town's portfolio.

RESOLVED, the Town Manager and Town Treasurer are authorized to execute a contract with MBIA Municipal Investors Service Corporation for the management of a portion of the Town's investment portfolio, keeping within the guidelines of the Town's Investment Policy dated August 7, 2005.

PASSED AND ADOPTED at a ____ meeting of the Town Council of the Town of Los Gatos, California, held on the _____ day of _____, 2006 by the following vote:

COUNCIL MEMBERS:

AYES:

NAYS:

ABSENT:

ABSTAIN:

SIGNED:

MAYOR OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

ATTEST:

CLERK ADMINISTRATOR OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA